LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7070 | **NOTE PREPARED:** Apr 29, 2005
BILL NUMBER: HB 1182 | **BILL AMENDED:** Apr 28, 2005

SUBJECT: Permanent Extension of TIF and Other Tax Matters.

FIRST AUTHOR: Rep. Leonard | **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Dillon

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: *TIFS and Abatements:* This bill extends the deadlines for the creation of new tax increment finance (TIF) allocation areas and for the approval of new statements of benefits for tax abatements from December 31, 2005, to December 31, 2011, and subsequently provides for automatic five-year extensions of the deadlines unless the General Assembly enacts a statute that terminates the automatic extensions and designates final deadlines.

Repeal of Geographic Limits: The bill repeals the limitation of tax abatements for new logistical distribution equipment and new information technology equipment to certain counties located along Interstate Highway 69.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues: *TIFs and Abatements:* The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for TIFs would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the TIF, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the regular tax rolls.

Explanation of Local Expenditures:

Explanation of Local Revenues: *TIFs:* Under current law, TIFs are granted for up to 50 years, and proceeds may be used to:

1. Pay debt service on obligations incurred for the financing of redevelopment in the allocation area;
2. Deposit funds into a debt service reserve to pay bonds;
3. Pay debt service on bonds used to pay for local improvements in or serving the allocation area;
4. Pay premiums on early bond redemptions;
5. Make lease payments;
6. Reimburse the local unit for the cost of making local improvements;
7. Reimburse the local unit for rent paid by the unit for a building or parking facility in or serving the allocation area;
8. Pay a PTRC-like credit to taxpayers in the allocation area;
9. Pay expenses incurred by the redevelopment commission for public improvements in or serving the allocation area; and
10. Reimburse public and private parties for expenses in training employees of certain industrial facilities.

Currently, no new TIFs can be created after December 31, 2005.

This bill extends the December 31, 2005, deadline for TIFs to be granted to December 31, 2011, and provides for an automatic five-year extension of the deadlines unless the General Assembly enacts a statute that terminates the automatic extension and designates final deadlines. If there is an increase in development because of this proposal, the assessed value of the new property would be included in taxing units' certified valuations when the TIF area expires. This could (1) eventually help spread the property tax burden and potentially reduce tax rates for most funds and (2) eventually increase revenues in cumulative and capital projects funds. However, if one assumes that the investment would be made with or without the TIF, then TIF allocation (or capture of the new assessed value) would delay the rate reductions and cumulative /capital projects fund revenue increases. In all cases, the granting of a TIF is a local decision.

The impact would depend on the number and dollar amount of new TIFs granted after CY 2005. The following chart shows the total TIFs for the last 10 years.

Year	TIFs	
	Total	Increase
1994	$23,116,487	
1995	27,555,225	4,438,738
1996	32,003,233	4,448,008
1997	31,998,229	(5,004)
1998	38,078,710	6,080,481
1999	40,528,120	2,449,410
2000	51,193,949	10,665,829
2001	29,191,747	(22,002,202)
2002	44,379,676	15,187,929
2003	29,950,248	(14,429,428)

Tax Abatements and Repeal of Geographic Limits: Under current law, new manufacturing equipment and new research and development equipment may qualify for property tax abatements. The abatements are available for up to 10 years. Currently, no new abatements can be granted after December 31, 2005.

This bill also would allow abatements for new "logistical distribution equipment" and new "information technology (IT) equipment" if installed after December 31, 2005, in an economic revitalization area. Current law concerning these abatements applies only to equipment installed before January 1, 2006, and only for certain counties containing I-69.

Logistical distribution equipment would consist of racks, scanners, separators, conveyors, forklifts, moving equipment, packaging equipment, sorting and picking equipment, and software.

IT equipment would include equipment and software used in the fields of information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development, and fiber optics.

This bill extends the December 31, 2005, deadline for all abatements to be granted to December 31, 2011, and provides for an automatic five-year extension of the deadlines unless the General Assembly enacts a statute that terminates the automatic extension and designates final deadlines. This bill effectively allows these abatements to be granted for the next 6 or 11 years. If there is an increase in development because of the continued use of these abatements, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision.

The impact would depend on the number and dollar amount of new abatements that might be granted after CY 2005 . The following chart shows the total abatements for the last 10 years for real and personal property.

Year	Real	Personal	Total	Increase
1994	$41,790,975	$54,579,109	$96,370,085	
1995	42,660,544	44,913,061	87,573,605	($8,796,480)
1996	39,409,092	66,760,681	106,169,772	18,596,168
1997	41,483,134	49,280,601	90,763,735	(15,406,038)
1998	43,312,527	43,532,906	86,845,433	(3,918,302)
1999	47,739,446	49,989,013	97,728,459	10,883,026
2000	50,877,703	70,955,197	121,832,900	24,104,441
2001	57,247,336	94,062,035	151,309,370	29,476,471
2002	65,621,529	102,594,325	168,215,854	16,906,484
2003	59,113,642	154,181,896	213,295,539	45,079,685

The average annual increase over the last five years has been $25.3 M.

State Agencies Affected: Department of Natural Resources and Fair Board.

Local Agencies Affected: All.

Information Sources:

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